Maine Policy Review

Volume 14 | Issue 1

2005

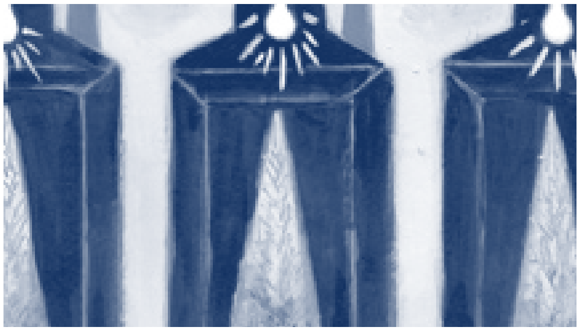
Loan Forgiveness and Repayment: Can They Increase Education Attainment in Maine?

Catherine Reilly

Maine State Planning Office

Recommended Citation

Reilly, Catherine. "Loan Forgiveness and Repayment: Can They Increase Education Attainment in Maine?." *Maine Policy Review* 14.1 (2005) : 64 -69, https://digitalcommons.library.umaine.edu/mpr/vol14/iss1/12.



Loan Forgiveness and Repayment: *Can They Increase Education Attainment in Maine?*

by Catherine Reilly

Maine's level of higher education attainment has remained stubbornly low despite substantial efforts to improve the access to and availability of higher education options in Maine. In this article, Maine's state economist, Catherine Reilly, examines the pros and cons of two, perhaps under-utilized, policy tools for increasing Maine's higher education attainment level—loan forgiveness and loan repayment. The design and marketing of such programs are critical, and would have to be done carefully. Reilly notes, however, that loan forgiveness and repayment are unique policy tools because they create incentives for students to live and work in the state after graduation.

Loan Forgiveness vs Loan Repayment

Loan forgiveness programs are similar to loan repayment programs with one critical difference: loan forgiveness programs lend money to students as they pursue their degrees. Once students graduate, the program forgives their loans as long as they fulfill its requirements (e.g., work in a targeted field or residency in a targeted area). College graduates who did not enroll in the program cannot join retroactively. By contrast, loan repayment programs repay education loans from other sources and are open to any graduates who fulfill the program requirements.

INTRODUCTION

Maine's Department of Labor recently reported that the state's workforce will need an infusion of new workers over the coming decades as the baby boom generation moves into retirement. Young high school graduates, workers of retirement age, and disabled residents will be called on to increase their participation in the workforce. The report further states that "Maine will prosper only if it is able to supply a workforce with requisite education, training, advanced knowledge, and skills" (Maine Department of Labor 2005: 7).

Increasing educational attainment among Maine's existing workforce and training new workers are not new policy goals for the state. But with the continued transition of Maine's economy away from traditional manufacturing and resource extraction industries to services and knowledge-oriented industries, these goals become more urgent and important to Maine's economic and social wellbeing.

The state of Maine employs a wide range of tools to promote higher education and develop its workforce. These tools include a variety of grant and loan programs and direct support for public institutions of higher education. The state also administers a few loan forgiveness programs for teachers and health professionals, which offer payment of education loans for college graduates in return for work in a particular occupation or geographic region.

But Maine has a broader need: the need for more degree holders of nearly every type in nearly every Maine community. A broad-based loan repayment program has repeatedly surfaced as an idea for addressing three challenges facing Maine: increasing the number of college-degree holders, assisting nontraditional students already in the workforce, and attracting and retaining more young residents.

Loan forgiveness and repayment cannot replace existing programs that make college accessible to many Maine residents, such as grants to low-income students, distance learning, and initiatives to facilitate transfers from community college into the university system. Yet, many students never make it to those programs because they are discouraged by the sheer cost of college, and reluctant to borrow money. Well-marketed loan forgiveness and repayment programs may reassure them that investing in a college education is worthwhile.

Some people bristle at the idea of paying the loans of college graduates whom they view as high-income earners. This ignores the fact that many students from low- and middle-income households rely on loans to finance their educations. Furthermore, there is evidence that students from low-income households and minority students perceive their loan payments as a greater burden than other students who earn similar salaries and make similar loan payments (Baum and O'Malley 2003). Hence, loan forgiveness and repayment may be especially attractive to students from low-income and minority households. Loan forgiveness and repayment programs have the same goal as other financial aid programs: to increase the number of Maine residents with college educations. Most states give financial aid with the hope that recipients will earn degrees and eventually contribute to the state's economy. There's no guarantee this will happen. Some students may drop out of college. Some graduates may leave the state. Others may choose not to work. Any of these outcomes may occur in a loan forgiveness program. By contrast, loan repayment guarantees a return on the state's investment. Loan repayment programs are the only form of financial aid that can guarantee its recipients are contributing to the state's economic and social wellbeing.

This essay explores the pros and cons of loan forgiveness and repayment as a tool for increasing the number of Maine residents with college degrees. While, historically, these programs have targeted holders of four-year and graduate degrees, they could be used to assist holders of two-year degrees. Throughout this essay a "college" degree refers to any postsecondary degree.

HIGHER EDUCATION ATTAINMENT IN MAINE

Maine does an excellent job of graduating its students from high school. About 87% of Maine's adult population has at least a high school degree, which ranks the state fourth in New England and 26th in the nation (U.S. Census Bureau 2004). This achievement has not extended into higher education. About 24% of adult Mainers have at least a bachelor's degree, which ranks Maine last in New England and 35th in the nation (U.S. Census Bureau 2004).

To close this gap, Maine has made some worthwhile investments in its higher education system. In 2003, Maine's technical college system converted to a community college system. Degree enrollment increased 42% between fall 2002 and fall 2005 (Maine Community College System 2005). At Maine's university campuses, full-time-equivalent enrollment increased 4% over the same time (University of Maine System 2005). In March 2005, higher education leaders announced a new agreement guaranteeing admission into the university system for students earning liberal arts associates degrees at the community college system. Transfers into the university system have risen 21% in the past two years.

> The most obvious advantage of loan forgiveness and repayment programs is that public money goes directly to what the state needs: more degree holders.

Continuing this progress will likely require further public investments in higher education. Between 1997 and 2002, state and local support of higher education in Maine totaled 6.0% to 6.5% of total expenditures, below the national rate of 7.5% (U.S. Census Bureau 2002). By comparison, state and local support of K-12 education in Maine totaled 21% to 23% of total government expenditures, above the national rate of support, which hovered around 20% (U.S. Census Bureau 2002). Numerous factors contribute to attainment levels both in Maine and other states, but these figures are difficult to ignore.

Many of the barriers to higher education in Maine are financial. The cost of attending college is higher here than elsewhere in the country. In 2003-04, average tuition and fees for a full-time, in-state undergraduate student attending a public, four-year institution in Maine were 8% above the national average and 18th highest in the country (National Center for Educational Statistics 2004). The cost of attending a two-year public institution was 66% above the national average and seventh highest in the country. It should be noted that these rankings have improved in recent years. Tuition and fees at Maine's universities have increased less rapidly than in other states, and the recent increase of tuition at the community colleges was preceded by six years during which tuitions were frozen. Thus, the state has made some progress toward reducing the cost of college.

Debt aversion is another barrier to college education in Maine. In 1999-2000, 62% of college graduates nationwide had financed at least part of their educations through loans (with an average debt of $16,900) (Berkner et al. 2003). Surveys conducted in Maine, however, show that many residents are hesitant to use this tool (MELMAC Education Foundation 2003). The net result of these factors and others is that higher education attainment in Maine is below national levels (Quint and Plimpton 2002). Clearly, there is room for further investments to address the problem.

TOOLS FOR INCREASING AFFORDABILITY

Maine uses many tools to increase the affordability of higher education and develop its workforce. Already, the state spends millions of dollars to operate universities and community colleges, offers scholarships to many residents, and exempts some interest payments on education loans from state income tax. The state also offers loan forgiveness programs administered by the Finance Authority of Maine (FAME). The Educators for Maine program provides loans to about 450 students per year, and roughly 50% of program graduates are fulfilling the requirements for loan forgiveness. Each year FAME also administers about 70 Maine Health Professions Loans and between two and ten Dental Education Loans. According to FAME these programs are at capacity, yet they represent a minuscule percentage of the total number of loans taken by students in and from Maine each year (Finance Authority of Maine 2003).

The most obvious advantage of loan forgiveness and repayment programs is that public money goes directly to what the state needs: more degree holders. Many financial aid programs have pre-graduation residency requirements (e.g., scholarships to students attending a certain college, or students from a certain high school or town), but only loan forgiveness and repayment leverage financial resources to influence where students live post-graduation. In this way, the state is guaranteed a return on its investment.

Furthermore, that return may be immediate. Students who receive traditional financial aid enter the workforce several years after receiving it, which means there is a lag between implementing the program (and incurring costs) and effecting changes in the workforce. During that time, aid recipients may drop out of college, change degree programs, relocate, or choose different careers. Any of these things may happen in a loan forgiveness program, and non-compliant students must repay their loans in full. By contrast, loan repayment programs can respond to labor market needs immediately, and beneficiaries of the programs are guaranteed to be working in the desired field or location.

Like all policies to support higher education, however, loan repayment programs have limitations. First, they bypass institutions and support students directly. This means they do not support the activities of higher education institutions that are not directly geared toward graduating students, such as research and development and enhancing local communities. On the other hand, 100% of funds dedicated to loan repayment go toward increasing the number of degree holders in the state's workforce, rather than pursuing this goal indirectly through institutions that must incur administrative costs.

Second, loan repayment programs do not offer financing to students while attending college. Although there are numerous public and private sources of education loans, if students do not receive loans from those sources, then they may not be able to attend or finish college. However, a well-marketed, well-funded loan repayment program should provide students and lenders the confidence to finance education through loans.

Third, loan repayment programs undervalue students who receive some college education but not a degree. This is true of loan forgiveness programs as well. There are public and private benefits of attending college even if one does not obtain a degree. Most forgiveness and repayment programs are only for degree holders.

Clearly, the policy choice between loan forgiveness and repayment and other forms of support for higher education is not an either-or decision. The goal should be to use each type of support at an optimal level. Loan forgiveness and repayment programs have elements that distinguish them from other tools to support higher education. The most powerful element is the guarantee that the state's higher-education investment would go directly to more degree holders in Maine's workforce.

HOW EFFECTIVE ARE LOAN REPAYMENT AND FORGIVENESS PROGRAMS?

As of 2004, the federal government and at least 22 states were administering some form of loan repayment or forgiveness program (Kirshtein et al. 2004). Unfortunately, there is no known research on the effectiveness of these programs relative to other forms of support for higher education. The following section describes findings from two programs.

In 2003, the Illinois Student Assistance Commission published one of the few assessments of the effectiveness of a state's loan forgiveness programs. Illinois has two forgiveness programs that offer up to $5,000 per year of postsecondary schooling in exchange for a one-year teaching commitment. In a survey of 1,167 recipients who had passed the grace period of loan deferment, 86% were repaying or had repaid their loans through teaching (compliant) and 14% were pursuing other careers (non-compliant). Of those who found and accepted teaching positions after graduation, 12% would not have or were unsure if they would have accepted the position if doing so was not a requirement of loan forgiveness. Thirty percent indicated that the program was very influential in their decision to teach; 13% thought they likely would not have become a teacher if they had not received the award; and 81% would have pursued a teaching career regardless of the award (Illinois Student Assistance Commission 2003).

These results suggest that the Illinois program changed the decisions of 12% to 13% of loan recipients. Assuming that 12% to 13% of program costs went to those students, this means that 87% to 88% went to students whose decisions were not directly influenced by the program. This does not necessarily mean that money was wasted. It made college more affordable for those students. If they had not received funding through the loan forgiveness program then they may have borrowed from another source.

…loan forgiveness and repayment are unique policy tools that, if used carefully, could have untapped potential for increasing education attainment among Maine's workforce.

Another study attempted to model the influence of a loan repayment program. In 1998, Robert Sauer studied employment choices over time of 693 graduates of the University of Michigan Law Schoo1 (Sauer 1998). The lawyers were surveyed one, five, and 15 years after their graduations. They were separated into five employment sectors: sole proprietors, business, nonprofit, non-elite (small private firms), and elite (large private firms). Using economic modeling based on survey responses, Sauer estimated that offering loan repayment to those entering the nonprofit sector would have increased the number of lawyers choosing that sector one year after graduation from 18.5% to 19.6%. After 15 years, Sauer estimated that the percentage of lawyers remaining in that sector would be 9.1% to 11.1% higher since fewer lawyers would exit the nonprofit sector over time.

In these two cases, loan repayment and forgiveness had a small impact on the recipients' decisions. The programs appear to influence decisions on the margin and do not operate near total efficiency (with 100% of proceeds going to students who otherwise would not have become teachers or to lawyers who otherwise would not have worked in the nonprofit sector). This suggests that similar programs have the potential to encourage additional education attainment among Maine's workforce, but that designing an efficient program for Maine would not be an easy task.

DESIGNING A PROGRAM

Creating an effective broad-based loan forgiveness or repayment program in Maine (one that would increase the number of college graduates without wasting public money) would require careful attention to program design. There are at least five variables that policymakers can influence:

Loan repayment or forgiveness. Loan forgiveness programs offer students valuable financing while attending college, but there is a lag between their receipt of the loan and their contribution as part of the state's workforce. They may drop out of college or leave Maine, in which case the loan would convert to a traditional loan, and the state would receive repayment from the student. The state would not lose money (except perhaps in administrative costs), but the state's economy would not gain the full benefit of the student's contribution.

Targeting the program. Maine currently uses loan forgiveness programs to a very limited degree and only as a strategy for reacting to labor shortages in specific areas. This is typically the case with loan forgiveness programs. A broader-based loan repayment program would provide incentives for all degree holders in all occupations and areas of the state.

Offering too little would mean that funds go to individuals who already would have fulfilled the program requirements (attending college and living in Maine) instead of changing the decisions of other individuals. Offering too much would mean using public funds inefficiently.

Residency requirements. Length of residency can be thought of as the cost to graduates of receiving the benefit of loan forgiveness or repayment. As the cost goes up, fewer graduates would be motivated to maintain their residency in order to take advantage of the program. The more years of residency required, the more likely that funds would go to individuals who would have lived in Maine regardless of the program.

Marketing the program. Inevitably, a portion of funds would go to people who would have already attended college and lived in Maine. To some degree, the amount of overlap depends on the extent and manner of marketing. Loan forgiveness and repayment may be a powerful tool for tipping the scales of people who are deciding to attend college and/or live in Maine. The degree to which the program is marketed would determine the number of people influenced by it.

CONCLUSION

The ultimate goal of public support for higher education is a better-educated population, and there are many tools available to states choosing to pursue that goal. Among those tools, loan forgiveness and repayment programs are unique because they create direct incentives for students to live and work in a state after graduation. The limited research available on these programs suggests that they can influence students' decisions during and after college. However, their efficiency in doing so is unclear and likely depends on how well the programs are designed and marketed. In all, loan forgiveness and repayment are unique policy tools that, if used carefully, could have untapped potential for increasing education attainment among Maine's workforce.

REFERENCES

Baum, Sandy, and Marie O'Malley. *College on Credit: How Borrowers Perceive their Education Debt.* Braintree, MA: Nellie Mae Corporation, 2003.

Berkner, Lutz, Ali Berker, Kathryn Rooney, and Katharin Peter. "Student Financing of Undergraduate Education: 1999-2000." *Education Statistics Quarterly* 4.3 (2003) [Accessed January 22, 2006] http://nces.ed.gov/programs/quarterly/vol_4/4_3/4_2.asp

Finance Authority of Maine. "The Benefits and Drawbacks of Converting Loan Forgiveness Programs to Loan Repayment Programs: A Report to the Joint Standing Committee of the Legislature." Augusta, ME: Finance Authority of Maine, 2003.

Illinois Student Assistance Commission. *Recruiting Teachers Using Student Financial Aid: Do Scholarship Repayment Programs Work?* Deerfield, IL: Illinois Student Assistance Commission, 2003.

Kirshstein, Rita, Andrea Berger, Elana Benatar, and David Rhodes. *Workforce Contingent Financial Aid: How States Link Financial Aid to Employment.* Indianapolis, IN: Lumina Foundation for Education, 2004.

Maine Community College System. *Fall 2005 Progress Report.* [Accessed January 22, 2006] http://www.mccs.me.edu/about/enrollment.html.

Maine Department of Labor. *Trends and Implications for the Maine Workforce*. Augusta, ME: Department of Labor, 2005. [Accessed January 22, 2006] http://www.maine.gov/labor/lmis/pdf/MaineWorkforce.pdf

MELMAC. *Educational Needs Assessment and Strategy.* Augusta, ME: MELMAC Education Foundation, 2003. [Accessed January 22, 2006] http://www.melmacfoundation.org/publications/Needs_Assessment.doc

National Center for Education Statistics. *Digest of Education Statistics, 2004*. Washington, DC: U.S. Department of Education, 2004. [Accessed January 22, 2006] http://nces.ed.gov/programs/digest/d04/

Quint, Colleen, and Lisa Plimpton. 2002. "Barriers to Postsecondary Education in Maine: Making College the Obvious and Attainable Next Step for More Maine Students." *Maine Policy Review* 11.2 (2002): 44-60.

Sauer, Robert. "Job Mobility and the Market for Lawyers." *Journal of Political Economy.* 106.1 (1998): 147-171.

University of Maine System. *Summary of Fall 2005 Enrollments*. Bangor, ME: University of Maine System. [Accessed on January 22, 2006] http://www.maine.edu/pdf/enrollfall05.pdf

U.S. Census Bureau, Census of Governments, 1997/98-2001/02. Washington, DC: U.S. Census Bureau. [Accessed on January 22, 2006] http://www.census.gov/govs/www/estimate.html

U.S. Census Bureau, Current Population Survey, 2002-2004. Washington, DC: U.S. Census Bureau, 2 004. [Accessed on January 22, 2006] http://www.census.gov/population/www/socdemo/educ-attn.html


© David A. Rodgers

Catherine Reilly is the state economist of Maine. Prior to joining the State Planning Office in 2004, she worked at the Margaret Chase Smith Policy Center at the University of Maine. She is a native of Hancock County and now lives in Augusta. Thanks to the generosity of her family, Loyola College in Maryland, and Fordham University, she has no student loans.